

DECLASSIFIED

Authority NND 969019
By RG NARA Date 6-5-02

~~CONFIDENTIAL/NO FOREIGN DISSEM~~

REC-15



June 27, 1972

OPEC OPENS OIL MINISTERS' MEETING IN ATMOSPHERE OF UNCERTAINTY

The OPEC^{1/} Ordinary Ministerial Council Conference opened June 27 in Vienna with important issues unresolved. The main issues facing the conferees are: (1) OPEC failure to make any headway with the oil companies on implementation of the 20 percent participation agreed to in principle by the companies last March; (2) Iraq's nationalization of the Iraq Petroleum Company (IPC) on June 1; and (3) Iran's agreement with the consortium of oil companies operating in that country to extend the consortium's concession beyond the current expiration date in 1979.

Participation

OPEC won the first round in the participation negotiations when Aramco, acting on behalf of all the major oil companies operating in the Persian Gulf, agreed to the principle of 20 percent participation in company operations by host countries. Since March OPEC and the oil companies have not even been able to agree on the form participation will take - stock in the company, share of oil production, and/or

^{1/} OPEC members are: Abu Dhabi, Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and Venezuela.

This report was produced by the Bureau of Intelligence and Research. Aside from normal substantive exchange with other agencies at the working level, it has not been coordinated elsewhere.

~~CONFIDENTIAL/NO FOREIGN DISSEM~~

CLASSIFIED BY John Ghiardi
AUTOMATICALLY DECLASSIFIED ON Dec 31, 1978

REC-15

PET 3 OPEC

DECLASSIFIED
Authority NND 959019
By RG NARA Date 6-5-02~~CONFIDENTIAL/NO FOREIGN DISSEM~~

-2-

share of the profits, not to mention the more difficult matter of how much the companies should be compensated for the loss of assets and future profits. Lack of progress in negotiating details of participation will generate acrimonious debate at the Conference. The minimum position the Conference seems likely to agree to is one calling for immediate transfer of a 20 percent share of oil production to host governments, a timetable for attainment of a controlling interest, and deferring a decision on the thorny issue of compensation.

IPC Expropriation

Two sobering realizations have been brought home by the Iraqi expropriation of IPC. Coming on the heels of Libya's expropriation of BP's holdings in that country and Algeria's seizure last year of majority interest in French companies operating there, Iraq's action has made the companies more acutely aware of how fragile the control they have over their concessions has now become. On the other hand, Iraq's difficulties in resuming oil exports from the expropriated fields - there have been no exports from these fields since the expropriation - have once again reminded producer countries of their dependence on the companies for distributing the oil. (Libya has experienced similar difficulty in marketing oil from the nationalized BP fields).

~~CONFIDENTIAL/NO FOREIGN DISSEM~~

In initial statements most OPEC member states promised to support Iraq's move against IPC by not increasing oil exports to make up for the reduction in flow from the former IPC held fields in northern Iraq and to oppose any retaliatory actions taken by the IPC shareholders ^{2/} against Iraq. The Ministers at the Conference will probably follow up this earlier action by issuing a statement whose general thrust would be to support nationalization of oil production whenever current owners fail to meet the "reasonable" demands of host governments. A statement of this type would satisfy the "radicals" and the "moderates" since "reasonable" means different things to different countries and leaves them free to act according to their own national interests.

Iran's Agreement

Iran has agreed to extend the Consortium's ^{3/} exclusive production rights in the "agreement area" fifteen years beyond the current expiration date in 1979. In return for the extension the Consortium has agreed to increase oil production from the current level of 4.3 million barrels per day (b/d) to about 8 million b/d in 1976, turn over the large Abadan refinery to the government for its use, build a new Consortium refinery at Kharg Island, and provide crude oil to the National Iranian Oil Company (NIOC) for Iranian domestic consumption and marketing abroad. The agreement makes no provision

^{2/} BP, Shell, CFP, Esso, Mobil, and the Gulbenkian Foundation.

^{3/} Shareholders in the Consortium are: BP - 40%, Shell - 14%, CFP - 6%, Esso, Mobil, Gulf, Texaco, Socal - 7% each, and a group of smaller American companies - the remaining 5%.

DECLASSIFIED
Authority NND 969019
By RG NARA Date 6-5-02

~~CONFIDENTIAL/NO FOREIGN DISSEM~~

-4-

for participation by Iran in the Consortium's crude output, a point that will be roundly criticized by other OPEC members at the Conference. However, Iran owns the fixed assets in the "agreement area" and in effect has achieved many participation objectives using a different approach.

Iran is not alone in following a different approach to participation. Iraq's expropriation of IPC is in effect participation with a vengeance and certainly takes a long step ahead of the plan for 20 percent participation now, with the understanding that majority or full ownership would come after a period of phased increments in participation. Nigeria has taken a slightly different tack in insisting on an initial minimum 35 percent participation in its older concessions (in new concessions Nigeria has retained a controlling interest in production). Venezuela is apparently satisfied with its own agreements that will give it control over virtually all oil production in the country by 1983. Libya is demanding 51 percent participation in current negotiations for production rights with the Italian national oil firm, ENI. The picture that is developing is one of general OPEC agreement on the principle of participation, while the form, payment for, timing, and other critical details will be left to individual countries to work out on a case by case basis in accordance with their own interests.

Consumer Country Action

While the different approaches to participation taken by various OPEC members may signal incipient divergence in that group, the

~~CONFIDENTIAL/NO FOREIGN DISSEM~~

DECLASSIFIED
PA/HO Department of State
E.O. 12958, as amended
June 21, 2006

DECLASSIFIED
Authority NND 969019
By RG NARA Date 6-5-02

~~CONFIDENTIAL~~
~~NO FOREIGN DISSEM~~
-5-

important change in the relationship between the companies and host governments has not served to unite the consumer country governments vis-a-vis the producers. A Dutch proposal that OECD governments use their oil stockpiles to back up the companies in negotiations with producer governments was sidestepped at the June 19 meeting of the working group of the OECD Oil Committee and deferred to the group's next meeting scheduled for November. Other consumer governments are less interested in supporting the predominantly American, British, and Dutch oil companies. As long as oil supplies do not appear seriously threatened, consumer governments seem to prefer leaving the participation matter to the companies to work out with OPEC. Whether a supply crisis would lead consumer countries to form a united front vis-a-vis the producing countries is not clear and is probably not a choice that will have to be made in the near future.

INR/Economic
Director: JGhiardi
Analyst: LCecchini
Ext. 21187
Released by: *zw*

~~CONFIDENTIAL NO FOREIGN DISSEM~~

DECLASSIFIED
PA/HO Department of State
E.O. 12958, as amended
June 21, 2006